

**SECRET****ECONOMIC INTELLIGENCE REPORT****SINO-SOVIET BLOC  
POSTWAR ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS**

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**ECONOMIC INTELLIGENCE COMMITTEE**

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FOREWORD

This report was undertaken in response to a request from Mr. Joseph M. Dodge, Special Assistant to the President for Foreign Economic Policy, to the Secretary of State on 23 January 1956. Mr. Dodge's request called for

1. The assembling and completion of existing information on the cold war economic activities of the Sino-Soviet Bloc up to date.
2. The establishment of a mechanism through which this information would be assembled, summarized, and reported on a biweekly basis.

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This report is intended to meet the first part of Mr. Dodge's request. It covers Sino-Soviet Bloc economic activities through April 1956 and therefore eliminates the necessity of issuing a separate quarterly report for the period February-April. Communist economic activities in the Satellites and Communist China before they became members of the Bloc are excluded, since these activities are not comparable with the current Bloc economic offensive in the underdeveloped areas. Soviet techniques for acquiring political control in Eastern European countries in the years 1946-48 were largely based on force and are now so separated by time from the present trade offensive that they throw no light on current Bloc economic activities in underdeveloped areas.

This report is intended to be primarily a factual statement of what the Communists are doing to expand their economic relations with underdeveloped areas of the Free World. The discussion of motives is limited to a consideration of the role that economic factors may have played in determining current Bloc economic policies. The broader question of Sino-Soviet Bloc political motives is covered in NIE 100-3-56, Sino-Soviet Policy and Its Probable Effect in Underdeveloped Areas, 24 April 1956, SECRET.

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This report was prepared by the EIC Working Group on Sino-Soviet Bloc Economic Activities in Underdeveloped Areas, and was reviewed and concurred in by the Economic Intelligence Committee.

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SINO-SOVIET BLOC POSTWAR ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS\*

Summary

By the end of April 1956 the foreign economic program of the Sino-Soviet Bloc had resulted in offers of long-term credits to non-Bloc underdeveloped countries of over US \$1 billion, of which more than \$820 million had been accepted. In addition to providing these credits for capital development and arms purchases, the Sino-Soviet Bloc has attempted to expand economic relations with the underdeveloped nations by providing technical assistance, enlarging existing trade agreements and negotiating new agreements, and participating in trade fairs.

More than 90 percent of the credits extended through April 1956 were granted to four countries -- Egypt, Yugoslavia, Afghanistan, and India -- and more than 55 percent of the credits have been extended by the USSR. Czechoslovakia had provided credits for arms purchases to Egypt and Syria amounting to \$150 million.

Under its technical assistance program the Bloc had provided scientific and professional advisers as well as construction and production technicians to underdeveloped countries of the Free World. Fourteen of these nations received technical assistance in one or more forms. Most of the technical advisers were provided by the USSR and Czechoslovakia to relatively few countries -- Argentina, Egypt, Syria, Afghanistan, and India. Facilities for technical training and research were being established in India, Burma, and Egypt, and several hundred persons (excluding overseas Chinese returning to Communist China) had been sent to the Bloc for training. Over 300 Egyptian military personnel received training in the USSR, Czechoslovakia, and Poland.

\* Although the main emphasis in this report is on economic activities of the Sino-Soviet Bloc in underdeveloped areas of the Free World, significant Bloc activities of this nature in areas not considered underdeveloped are also discussed.

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The drive to expand trade resulted in a rise in the number of trade and payments agreements in force from 98 in December 1953 to 175 by the end of 1955, and 15 additional agreements were signed between January and the end of April 1956. Approximately 75 percent of the new agreements were with countries in the underdeveloped areas of the world.

Sino-Soviet Bloc participation in international trade fairs and expositions resulted in exhibits involving expenditures of about \$18 million at fairs in 32 countries during 1955. Exhibits in trade fairs within Bloc countries as well as many of those in the Free World were especially designed to appeal to underdeveloped nations.

Since 1950, all of the countries of the Sino-Soviet Bloc have carried on the bulk of their foreign trade within the Bloc, and trade with the Free World was primarily with Western Europe. Since 1953, however, Sino-Soviet Bloc trade with countries of the Middle East, Africa, Asia, and Latin America has increased from 28 to 33 percent of all Bloc trade with the Free World. Trade turnover of the European Bloc countries with these Free World areas more than doubled by 1955, reaching a total of over \$900 million in 1955. Although the trade of Communist China with these areas increased by only 15 percent between 1953 and 1955, its trade with these areas is still the largest of any Bloc country. Trade turnover in 1955 between Communist China and these areas amounted to \$550 million.

The greatest percentage increase in trade of the Bloc was with Latin America, where a 400-percent rise over the 1953 level was registered (to \$341 million) in 1955. Trade with the Middle East and Africa increased between 1953 and 1955 by 94 percent to \$511 million. Trade with South Asia and the Far East, where China is the most important Bloc trader, increased by 21 percent between 1953 and 1955 to a level of \$623 million.

The most notable change in the commodity composition of Bloc trade with the underdeveloped countries has been the growing significance of food imports and the rising importance of manufactured exports. Although still a net importer of capital goods from the Free World as a whole, the Bloc's exports of such goods to the underdeveloped countries have increased sharply. Almost half of the total increase in Bloc exports to the underdeveloped areas of the world between 1953 and 1955 was in manufactured goods. Bloc imports from the underdeveloped areas, largely foodstuffs and raw materials, have been rising steadily since 1953.

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Bloc economic plans suggest that a further increase in trade with the underdeveloped countries may be anticipated. The industrial growth of the USSR in particular has lessened many of the fears of the Soviet planners that economic independence would be lost through greater reliance on foreign sources of supply. Accordingly, a trade program designed mainly to achieve self-sufficiency seems no longer appropriate to them. Costs of manufactured goods in the European Soviet Bloc appear to be declining relative to costs of extractive goods. If the trend continues, the Bloc probably will take advantage of this situation to expand further its exports of manufactured goods and increase its imports of raw materials. It is probable that the economic incentives to increase trade with the underdeveloped countries will be stronger in the Satellite countries than in the USSR, where natural resources are not so scarce.

Undoubtedly, political as well as economic objectives motivate Bloc activity in the underdeveloped areas. In some instances, countries receiving aid from the Bloc produce very little of the raw materials needed by the Bloc. Furthermore, offers of credits on very favorable terms appear, in some instances, to be politically motivated. Developments in the foreign trade of the Bloc unquestionably will continue to be motivated by political factors.

An increase by 1960 in Sino-Soviet Bloc exports to the Free World to \$4 billion annually compared with \$2.5 billion in 1955, is well within Bloc capabilities. Within a fairly wide range, the import capacity of the Bloc is limited only by its ability and willingness to export to the Free World. The Bloc appears to be capable of fulfilling all of the \$1 billion in loan offers that are now outstanding and even of expanding considerably its credit program.

The desire for rapid economic growth and stable export markets makes the underdeveloped countries susceptible to the Bloc offers of credit and trade. Bloc loan terms provide for repayment through exports of the underdeveloped countries, giving the credits great appeal. In some cases the Bloc has agreed to take surpluses that the underdeveloped country has experienced difficulty in disposing of in normal markets.

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I. Introduction.

Sino-Soviet Bloc efforts to expand economic relations with non-Bloc underdeveloped countries became evident in mid-1953. Meager at first, these efforts gained considerable momentum during 1955. The main targets of the Bloc campaign have been the uncommitted countries of Asia and Africa. In addition, overtures have been made to countries committed to Free World military pacts, such as Turkey, Pakistan, Iran, and Japan.

In contrast with its earlier, less substantial gestures, the present Communist offensive has been followed by numerous concrete measures to promote closer economic relations with underdeveloped countries. The Bloc has been actively seeking to conclude trade arrangements, usually involving the exchange of Soviet and Satellite machinery and equipment for the foodstuffs and industrial raw materials of underdeveloped areas. As a result, Bloc trade agreements with underdeveloped countries of the Free World have nearly tripled in number since early 1953. Long-term credits at very favorable terms also are being provided to non-Bloc countries on a substantial scale for the first time, and even small amounts of grant assistance -- mainly through the UN technical assistance program -- are being furnished. In addition to the grant assistance, the Bloc has also given much publicity to a few gifts (as in Burma), which involve, however, return gifts to the Bloc.

These activities are reflected in foreign trade statistics, although these statistics -- at least through 1955 -- are not as yet fully affected by the recent trade agreements and credits. Nevertheless, foreign trade is the most concrete and reliable measure of the actual state of Bloc external economic activities, and Bloc exports and imports are the primary means for exerting economic influence in the Free World.

This report covers the following aspects of the new Communist economic diplomacy: the timing, magnitude, and direction of the Bloc campaign, including implementation of offers; the effects on the level, pattern, and composition of trade between the Bloc and underdeveloped countries; Bloc capabilities for expanding economic relations with underdeveloped countries; and the economic vulnerability of underdeveloped countries to Bloc overtures.

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## II. Sino-Soviet Bloc Economic Offensive.

Since mid-1953 the Sino-Soviet Bloc has employed a variety of techniques to expand economic relations with the Free World, partly for purposes of internal economic gain and partly as a means of increasing Bloc prestige and influence abroad -- particularly in countries faced with export problems in traditional Western markets and in countries involved in international disputes. The principal instrument of the economic offensive has been bilateral trade and payments agreements. Under some agreements the Bloc supplies manufactured goods and technicians or technical training in exchange for food and raw materials. In its campaign the Bloc has offered to purchase -- sometimes at premium prices -- commodities which the underdeveloped countries have found difficult to sell in Western markets. Participation in Free World trade fairs has been greatly expanded.

A substantial program for extending medium- and long-term credit has also been a major feature of Bloc economic diplomacy in the less developed countries. Usually these credits are tied to the use of Bloc goods and services. Thus, while this program was undertaken largely for noneconomic reasons, it has had the direct effect of increasing the imports of goods and technical services of underdeveloped countries from the Bloc and could lead to a long-range expansion of demand for Bloc products if the projects financed are successful.

The Bloc campaign is centrally directed by the USSR, which has sometimes used the Satellites as intermediaries, as in the case of the Czechoslovak arms agreement with Egypt. Within the general framework, however, the Satellites have been encouraged to develop their own credit programs, leading to some undercutting of Western bids and even to some competition among members of the Bloc.

Although, in some cases, prices charged the underdeveloped countries for Bloc products have been considerably below the lowest Western prices, the charge of Bloc dumping is difficult to substantiate. The artificiality of official Bloc exchange rates means that their use in comparing Bloc export prices with internal Bloc prices yields meaningless results.

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The calculation of the effective prices at which Bloc exports move to the Free World is further complicated by the barter nature of much of this trade. Premium prices obtained on sales to the Bloc may be offset by the high prices charged for Bloc exports -- that is, the other side of the barter. In some cases, such as with Turkey and Burma, these export-import price ratios have resulted in effective Bloc export prices above Western prices.

The coordination of the entire Bloc program should be improved as a result of discussions held in the spring of 1956 by the Soviet-directed Council of Economic Mutual Assistance (CEMA). This organization, which originated as the Soviet counterpart for Eastern Europe of the Organization for European Economic Cooperation (OEEC), met in East Berlin in early March reportedly for the purpose of coordinating the Bloc's economic offensive in the Free World. At the extension of the same conference the members of the Bloc laid plans for a further coordination of their internal economies. National specialization in production is to be increased with a view to increasing efficiency by way of economies of scale and concentration of production where resources or skills offer special advantages. Such coordination may be reflected in the pattern and effectiveness of the Bloc trade and credit campaign in underdeveloped countries.

A. Credit Program.

The most dramatic feature of the new Sino-Soviet Bloc economic campaign is the Bloc's willingness to supply non-Bloc areas with capital equipment, technical services, complete industrial installations -- and arms -- on credit at very favorable terms. Even where it aids little toward achieving the goals set in the economic development programs of the underdeveloped countries, the Bloc assistance has made a substantial psychological impact on recipients. In the cases of Afghanistan and Yugoslavia, at least, Bloc credit contributes significantly to the availability of resources for investment. Across a much broader front the Bloc has added substance to its campaign for increased prestige and international respectability.

The speed with which the credit program has been expanded is impressive. Until 1955, Bloc credits to non-Bloc areas were almost negligible. Through 30 April 1956, firm agreements to extend credits to underdeveloped countries had reached an estimated \$729 million,\*

\* Sixty-two percent of this total represents credits extended by the USSR.

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and transactions which may have involved credit were about \$92 million, or a total of about \$821 million (see Appendix B). Of this total, the USSR accounts for 55 percent and the European Satellites the remainder. Through April 1956, Communist China had provided no credits outside the Bloc, although an offer to Cambodia was being negotiated.

Many of the credit agreements involve general commitments to furnish capital goods and technical services which are conditional upon the negotiation of contracts for specific undertakings. Data are inadequate to determine the total amount of such contracts to date, but the Bloc countries have been pushing them vigorously, and Bloc actions suggest that the bulk of the credits (except for relatively small amounts extended to Argentina and Finland) will be promptly implemented. The Bloc apparently has adopted a policy of promptly providing the types of projects which the underdeveloped country wants. Usually the Bloc sends technicians to undertake planning and other preparatory work within a very short time after acceptance (final or even preliminary) of its offers.

Afghanistan provides an illustration of the speed with which the USSR has followed through on credits. In late December 1955, during the Khrushchev and Bulganin visit, a new Soviet credit of \$100 million for economic and technical assistance to Afghanistan was announced. By early January, bilateral talks at the working level began in Kabul; within 3 weeks a high-level Soviet mission arrived to negotiate agreements on general areas of activity, and on 28 January a broad agreement outlining the terms of credit was signed. On 2 March an agreement was concluded providing for such things as technicians and equipment for a number of specific projects. All indications are that actual construction work will also proceed rapidly, as was the case in earlier Soviet-assisted projects. Similar speed was shown in implementation of plans for Soviet assistance on welfare and economic projects in Burma. Architects, engineers, and other technicians arrived from the USSR within a matter of weeks in connection with the Soviet "gifts" of a hospital and technological institute. Various Bloc projects in India and Egypt were begun shortly after the initial agreements were signed.

In many countries, transfers of goods and services required to complete the Bloc projects will take place over several years. To date, such transfers represent a small percentage of the total credits

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which the Bloc has agreed to extend, but they will tend to expand Bloc influence and will operate to raise the level of Bloc trade with the recipient countries in the coming years.

Three large agreements, each involving more than \$100 million, account for about 80 percent of the Soviet credits. The Satellite credit agreements (except for the Czechoslovak-Egyptian arms agreement) involve smaller amounts, commonly less than \$5 million per contract. Interest charges have usually been at the rate of 2 to 2.5 percent, which is about half the rate generally charged by Western institutions but is comparable to those charged on intra-Bloc loans. The major Soviet loans have been extended for periods of 10 to 30 years; Satellite agreements are mostly for shorter terms of 5 to 10 years. In addition, a major attraction of the agreements is the provision for repayment in local products (sometimes in surplus commodities) or local currency. In some instances the Bloc has also offered to complete projects within especially short periods.

The principal recipients of the Bloc credits were Yugoslavia, 36 percent; Egypt, 21 percent; India, 19 percent; and Afghanistan, 15 percent. Eight other countries received an aggregate of 9 percent. Additional Bloc offers of nearly \$300 million were under consideration as of 30 April, the largest being in Egypt, Jordan, Syria, and India. If these offers are accepted, total credits extended will rise to at least \$1 billion. Table 1\* shows credits extended by the Soviet Bloc to underdeveloped countries from 1 January 1954 to 30 April 1956 and offers of credit under consideration as of 30 April 1956.

The foregoing are credit arrangements which either have been consummated or are under serious consideration. The Bloc has also made many other specific as well as general offers of aid to the less developed countries, including some members of Western defense pacts. In some cases, such as Libya, the Bloc offer has been specifically rejected. In many other instances the Bloc overtures have not required and have not received a definite response; a way has been left open for such offers to be accepted in the future. Bloc overtures usually have been given wide publicity and have generated considerable domestic pressures to accept assistance. In Turkey, for example, such pressure has been strong despite the deep-rooted suspicions of Soviet motives and basic pro-Western alignment of the country. Most of the countries which have hitherto been unresponsive to Bloc offers or have been willing to take only very limited amounts

\* Table 1 follows on p. 11. See also Figures 1 and 2, inside back cover.

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of aid probably will wish to maintain this position. But, if their economic situations should deteriorate significantly, and if they should feel the US is unsympathetic to their problems, it is highly probable that Bloc assistance would be accepted on a broader front by some countries.

Under the Bloc credit program a wide variety of items is to be furnished. Military items are a major component of several important agreements. In some cases a line of credit is provided for Bloc capital goods, raw materials, and technical assistance. For the major part, however, the credits cover "package deals" for a wide variety of development projects in which the USSR or the Satellites are to supply technical assistance in planning and constructing the facilities, capital equipment, and training programs for local employees. Examples of such projects include steel mills, cement plants, sugar processing plants, air and highway transport projects, textile mills, ceramics factories, fertilizer plants, development of mineral resources, power installations, health facilities, and atomic research facilities.

The timing and pattern of Bloc credits provides evidence of political motivation, notably the desire to enhance the attractiveness of neutralism and to lend some substance to Soviet claims of altruistic interest in supporting economic development goals or particular national ambitions of individual countries. The program has been received with great enthusiasm in many underdeveloped countries and has contributed importantly to the improvement in the Soviet and Satellite positions in the Middle East and Asia. In Latin America where credits have been confined to Argentina, there is greater skepticism of Bloc motives and some fear of offending the US, so that Bloc credit offers have made less impression, but they serve as a means of increasing bargaining power with the US for more assistance.

B. Technical, Professional, and Scientific Services.

As part of its trade and credit campaign, the Sino-Soviet Bloc has offered to provide technical services and training, which are in very short supply in most underdeveloped countries. The number of Bloc technicians sent abroad and foreigners receiving training in the Bloc is not known, but the program has reached significant dimensions in some countries -- particularly India, Afghanistan, Burma, and Egypt -- and some aspects of its general character and pattern can be noted.

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The organization of the Sino-Soviet Bloc's systems of education and utilization of manpower is such as to facilitate the extension of scientific and technical influence in non-Bloc areas. Bloc countries have had internal needs for technical skills and professions similar to those of the underdeveloped countries -- though such training often is confined to narrow specialties. In addition, Bloc countries are assuring themselves productive returns on their educational investment by requiring the graduates of specialized schools to take positions assigned to them by the government; they can thus be assigned to foreign countries without reliance on voluntary methods.

Sino-Soviet Bloc technicians have been sent to 14 underdeveloped countries of the Free World (see Figure 3\*). Within each geographical region the Bloc has concentrated on certain countries -- for example, Syria and Egypt in the Middle East, India and Afghanistan in South Asia, and Argentina in Latin America. In Afghanistan alone, Soviet technicians were estimated to number about 460. The personnel have varied from high-level scientific and professional advisers to construction technicians. In several cases (India, Burma, and Egypt) technical institutes or facilities for scientific research are being furnished. With minor exceptions, every member of the Bloc has sent technical personnel to the Free World. The majority, however, have come from those countries most capable of sending them, the USSR and Czechoslovakia.

Efforts to provide technical and scientific training within the Bloc for nationals of Free World underdeveloped countries have been given greater emphasis in the past year. Groups of technicians and scientists from a number of Asian and Latin American countries have been invited to make inspection tours of the Bloc and to attend professional meetings, frequently with all expenses paid. Bloc contracts for development projects also sometimes involve some training of personnel in the Bloc as well as the sending of Bloc technicians to the underdeveloped country.

In connection with the nuclear physics laboratory to be established in Egypt, Egyptian specialists will study in Soviet research institutes. Training facilities are to be provided in the USSR for 20 Indian professors to be connected with the Bombay Technological Institute. In implementing the September 1955 agreement for industrial assistance, Yugoslav specialists are to be trained in comparable Soviet

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\* Inside back cover.

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enterprises. In connection with the Soviet project of a flour mill, elevators, and a bakery, Afghan workers and specialists are to study and acquire practice in the USSR. A Soviet training program for workers in the Indian steel industry has been organized. The plan calls for 300 skilled workers and 135 engineers and technicians to go to the USSR for advanced training. Czechoslovakia has suggested that Indonesian students go to that country for technical apprentice training. The USSR has offered to accept Afghan doctors for further training.

One further type of specialized training is currently being carried on in the Bloc. There are reported to have been over 300 Egyptian military personnel training in the USSR, Czechoslovakia, and Poland.

The USSR and the European Satellites have also pressed for technicians to be sent to the Bloc for training under the UN expanded program of technical assistance and projects for the specialized agencies. Technical groups have also been invited through the regional economic commissions to make inspection tours -- for example, the mineral resources group from the Economic Commission for Asia and the Far East (ECAFE) area.

In the last decade, Bloc academic institutions, except in Communist China, have had limited experience with training students from Free World countries. In 1954 and 1955, only about 100 such students were known to have been enrolled in schools in the USSR and European Satellites, and it is not clear how many of these were studying scientific or technical subjects. The majority were Asians, primarily Indians, going to the USSR. Many of these are known to have had Communist affiliations and hence can be assumed to have gone for political purposes as well as for economic, scientific, or other training. Thus far in 1956, 435 people are reported to have gone to the USSR for training from India alone.

This increased training of Free World personnel offers the Bloc an opportunity for indoctrination of small, but influential, groups of people. These students from underdeveloped countries are likely to be impressed by the level of Soviet technical and industrial development. Especially are those students who have never visited Western Europe or the US likely to develop a sympathy for Communism.

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Communist China, although a relatively underdeveloped country itself, has made a great effort to encourage Chinese in other countries to study in mainland China. It is not known how many students are studying technical and scientific subjects compared with curricula of a general or cultural type. Most of the students from non-Communist countries who are studying in China have come from South and Southeast Asia. The Chinese Communists have estimated that, between 1950 and late 1954, 20,000 students had come to Communist China from Chinese communities in these areas. Recent reports suggest that overseas Chinese students are placing a heavy strain on accommodations and that the Communist authorities are now being more selective.

The extent to which this student training in Communist China can properly be called technical assistance to other areas is uncertain not only because much of the program involves cultural studies but also because many of the students probably will not return to their native countries.

C. Trade and Payments Agreements.

In 1953 the Sino-Soviet Bloc initiated a drive to increase its trade and payments agreements with Free World countries. From the end of 1953 to the end of 1955, the number of such agreements in force rose from 98 to 175. During the first 4 months of 1956, 15 new agreements were signed (including reactivation of those which had lapsed), and 4 additional agreements signed in 1955 became effective.

The shift in geographic distribution of these agreements indicates clearly the increased attention devoted to underdeveloped countries. Whereas underdeveloped countries accounted for only 33 percent of the number of agreements in force in December 1953, they comprised 51 percent of the total in 1955, and the proportion is expected to rise in 1956. Table 2\* shows the trade and payments agreements of non-Bloc countries with the Bloc in 1953-55. Of the agreements signed for the first time since January 1953, 75 percent have been concluded with underdeveloped areas. Czechoslovakia, Poland, and East Germany were the most active members of the Bloc in efforts to formalize and increase trade with underdeveloped countries. (See Appendix A, Table 7, p. 50, below, for details on new trade and payments agreements between the Sino-Soviet Bloc and Free World countries since 1 January 1955.)

\* Table 2 follows on p. 17. See also Figure 4, inside back cover.

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not guarantee that trade actually will attain that level. The trade agreement merely provides that official facilities will be established to permit trade up to the value or volume stated. Nevertheless, the large increase in formal trading arrangements with underdeveloped countries foreshadows increased trade with such areas.

Many of the agreements with the underdeveloped countries provide for technical aid in the form of complete installations of industrial plants and machinery as well as the services of Bloc personnel to train the workers of the receiving country. In a number of cases, provision is made in the trade agreement for an extension of credit by the Bloc to finance both trade and service items.

Trade agreements indicate a desire on the part of Bloc members to import a wide variety of goods -- from animals and animal products, edible and inedible, to machinery and vehicles. The agreements signed with Western Europe provide for a full range of commodities from food and raw materials to industrial equipment. Agreements with Latin American countries, however, are concentrated in relatively few imports -- linseed oil, meats, hides, coffee, cacao, cotton, and wool. Agreements with Near East and Asian countries call predominantly for imports of foodstuffs, tobacco, cotton, wool, rubber, and ores.

Agreements call for exports from the Bloc to consist primarily of manufactured goods and some raw materials. A wide variety of manufactured consumer goods, including textile manufactures, chemical and pharmaceutical goods, glass, and ceramics, are included in the agreements of underdeveloped countries with Czechoslovakia, Poland, East Germany, and Rumania.

Machinery is the major Bloc export mentioned in trade agreements with Near East and Asian countries. Included in this category are processing equipment, rolling stock, automobiles, trucks, and agricultural vehicles. Other exports of importance are to be nonmetallic minerals (petroleum and petroleum products, cement, and glass and glass products), metals and manufactures, and textiles.

Another technique used by the Bloc to expand trade has been the offer to pay prices seemingly higher than those prevailing in world markets. For example, Czechoslovakia offered prices for Egyptian cotton higher than those prevailing in Western Europe, and the Chinese Communists offered a premium above world market prices for Ceylon's rubber. Such high prices are especially attractive in the

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case of commodities which are in excess stock in the exporting countries. The advantage of these offers to the non-Communist underdeveloped countries, however, depends also on the prices paid for Bloc exports, as the trade is essentially barter. The relation between the export and import prices is not completely known. In the Ceylon-China exchange, Ceylon received a genuine price premium, as the Chinese rice price was close to market levels. On the other hand, in many of those cases where the Bloc has offered price premiums, it has also charged premium prices for its exports -- for example, to Turkey.

D. Trade Fairs and Exhibits.

Bloc participation in international trade fairs and exhibits has been greatly expanded as part of the broader economic campaign. During 1955 the Bloc showed its products at international fairs in 32 countries outside the Bloc, compared with 23 countries in 1954, the number of exhibits at such fairs rising by 81 percent. Moreover, trade fairs within Bloc territory have been tailored to appeal to Free World underdeveloped countries. Recent notable examples are the fairs at Poznan and Leipzig.

Expenditures on Bloc exhibits at fairs in Free World countries rose to about \$18 million in 1955 -- \$10 million above the previous year. Of the total in 1955, over half was spent in underdeveloped countries. In India alone, expenditures of \$2.9 million approached one-half of the total amount spent in Western Europe, which is the Bloc's most important Free World trading area. Other major expenditures were as follows: Yugoslavia, \$1.6 million; Pakistan, \$1.2 million; Syria, \$1.1 million; Indonesia, \$1 million; and Turkey, \$0.9 million. (See Appendix A, Table 12, p. 56, below.)

Czechoslovakia's expenditures on fairs in the underdeveloped countries were larger than those of any other Bloc country. Czechoslovak expenditures were 32 percent of total Bloc spending; the USSR spent 25 percent and Communist China 16 percent of the total. In addition, East Germany, Poland, and Hungary spent a total of more than \$2 million in underdeveloped countries of the Middle East and Asia.

Information about Bloc plans for participation in 1956 trade fairs indicates increased expenditures in such countries as Syria, Turkey, Greece, Italy, Yugoslavia, Tunisia, French Morocco, Uruguay, Brazil, and Japan. Bloc participation comparable in magnitude to

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Bloc exhibits in India, Pakistan, and Indonesia during 1955 has not been announced for 1956, but a strong Bloc effort is expected in this year's industrial and trade fair in Afghanistan.

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III. Sino-Soviet Bloc Trade and Trade Policy Before 1953.

A. USSR.

In the pre-World War II period, Soviet foreign economic policy was determined by plans for expanding industry and eliminating dependence on an outside world which was assumed to be hostile to Soviet ambitions. In the late 1920's and early 1930's, this policy of self-sufficiency involved the USSR in large-scale imports of machinery and equipment and also of foreign technical services. In the late 1930's as Soviet capabilities for domestic production of industrial equipment increased, these imports declined. Thus, while the industrial strength of the USSR was being augmented, imports were undertaken to eliminate the need to import. The goal of the USSR in its economic relations with the West was, presumably, the achievement and maintenance of a position of independence from Western sources of supply.

After World War II, Soviet foreign trade grew but was directed increasingly within the Sino-Soviet Bloc. The Soviet autarkic policy was expanded to include all Bloc countries as the area for which self-sufficiency was desired. Whereas trade with the West, which had never regained its prewar volume, remained below the postwar peak of \$1 billion in 1948, reaching a low point in early 1953, trade with Bloc countries grew from less than \$1 billion in 1948 to nearly \$4.8 billion by 1954 and amounted to 81 percent of total Soviet trade in that year.

The principal Soviet trading partners in the Free World since 1948 have been in Western Europe. Until recent years there were few changes in the composition of Soviet trade outside the Bloc. Grain was by far the largest export product, with the remainder consisting largely of extractive or agricultural goods; imports included a large proportion of manufactured products, with machinery and metals as a major category, and industrial raw materials occupied second place. Thus the trade of the USSR with the outside world resembled that of an underdeveloped country, although its trade within the Bloc was much more diversified. In the main, Soviet imports from the European Satellites consisted of manufactures, and Soviet exports to such countries consisted of raw materials and capital goods.

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B. European Satellites.

In response to the Soviet pressure for insulating their economies from the Free World, the European Satellites accomplished a striking reorientation of their postwar foreign trade away from former Western partners and toward the Bloc, primarily the USSR. Whereas Bloc internal economic and political policies have been the dominant factor in the eastward shift of Satellite trade, Western export controls instituted in 1949 and 1950 have also played a role.

The proportion of the total trade turnover of the Satellites with countries now in the Sino-Soviet Bloc, which had been only 5 percent in 1937, rose to 43 percent in 1948 and 76 percent in 1953. Even Poland, which retained the largest potential for East-West trade through its exports of coal and animal products, carried on 70 percent of its trade with the Bloc. Trade with the USSR alone during this period accounted for over half of Satellite intra-Bloc trade, whereas the share of trade with Communist China was minor.

C. Communist China.

By 1952, political unification of the mainland and the progress made by the Chinese Communists in rehabilitating the economy resulted in a virtual doubling of the volume of Communist China's foreign trade compared with the level of 1950. Communist China's foreign trade turnover was \$2.8 billion in 1952. During the same period, trade relations were reoriented toward the Soviet Bloc, which in 1952 accounted for 72 percent of Communist China's foreign trade turnover compared with 26 percent in 1950. The Soviet Bloc thus became the major source of supply for the expanding capital goods requirements of Communist China as well as for its military needs. Payment was accepted in large quantities of Chinese Communist exports of cereals, beans, oils, silk, tea, and non-ferrous metals. Non-Communist countries continued to supply raw cotton, rubber, and chemicals, whereas Communist China continued to export to the non-Communist world oils, oilseeds, foodstuffs, and miscellaneous native products such as bristles, tung oil, and feathers, although difficulties were encountered in adjusting to the loss of the US market resulting from US trade controls.

Communist China's trade with the non-Communist world dropped to a low in 1952 after the imposition of Western trade controls in 1951. During this period, however, the Chinese Communists made gestures for

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improved trade relations with non-Communist Asian countries; for example, grain shipments were made to India in 1951, and after the Moscow Economic Conference the Chinese Communists began to hold out prospects for increased East-West trade. Later a 5-year rubber-rice agreement was made with Ceylon, motivated in part by a desire on the part of Communist China to subvert Western trade controls.

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IV. Sino-Soviet Bloc Trade with the Free World Since 1953.

In 1953 the death of Stalin, coinciding with acute economic problems in Eastern Europe, apparently led to a reconsideration of certain economic policies. In the USSR, Stalin's successors wished to make concessions to the population in the form of increased supplies of consumer goods, particularly foodstuffs. Moreover, the cumulative effects of neglect in agriculture were believed to have reached a point where inadequacies in quality foods and textiles were depressing industrial productivity.

The countries of the Soviet Bloc, in varying degrees, revised their production plans to give greater emphasis to agriculture, to raw materials, and to consumption generally. Both the USSR and Eastern Europe increased their imports of Free World foodstuffs and allied products. The USSR, whose requirements for these products had increased along with the Satellite needs, was apparently unwilling to maintain its increasing rate of export to the latter, for in 1954 and 1955, Soviet Satellite trade remained virtually stable, whereas East-West trade expanded.

A. Levels and Geographical Pattern of Trade.\*

By the end of 1955, Sino-Soviet Bloc efforts to expand economic relations with underdeveloped countries had altered to some extent the distribution of Bloc trade between the industrialized and the less developed countries of the Free World. Whereas total Bloc trade with non-Bloc countries registered sizable gains from the 1953 postwar low, the largest increase in value of trade was with Europe. The proportion of total trade with the countries of the Middle East, Africa, Asia, and Latin America, however, increased moderately from 28 to 33 percent of all Bloc trade with the Free World. Given sufficient time for implementation of the trade agreements recently signed by the Bloc with countries in these areas, this share should further increase. Table 3\*\* shows the trade of the Sino-Soviet Bloc with the Free-World, by area, in 1953-55.

Between 1953 and 1955 the trade turnover of the European Bloc

\* See Appendix A, Tables 5 and 6, pp. 44 and 47, respectively, below.

\*\* Table 3 follows on p. 29. See also Figure 5, inside back cover.

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with the Middle East, Africa, Asia, and Latin America more than doubled (reaching a value of over \$900 million), whereas Communist China showed a percentage gain of only 15 percent.

1. Latin America.

The largest percentage gains in Bloc trade with non-Bloc countries were registered in Latin America, virtually all of it accounted for by the European Satellites and the USSR. This sharp increase can be attributed to the post-Stalin consumer goods policy as well as the current Bloc economic offensive. Trade with Latin America showed a fivefold increase between 1953 and 1955, raising the level of Latin America's trade with the Bloc to \$341 million, well over twice that of 1948. As a result, Latin America's share of the Bloc's trade with the Free World increased from 2 to 8 percent. Most of the gain was concentrated in Argentina, Brazil, Chile, and Uruguay. Despite this expansion, Latin America's trade with the Bloc in 1955 was still a very small percentage of its total trade, and only Argentina conducted more than 5 percent of its trade with the Bloc.

2. Middle East and Africa.

The expansion of Sino-Soviet Bloc trade with the Middle East and Africa of 94 percent between 1953 and 1955 raised the trade turnover to over \$500 million. Again most of the increase was accounted for by a few countries, notably Egypt, Turkey, and, to a lesser extent, Iran. The increases of the European Satellites and the USSR were approximately 97 percent and 80 percent, respectively, and Communist China registered a 112-percent increase.

3. South Asia and Far East.

The increase in Sino-Soviet Bloc trade with South Asia and the Far East of 21 percent between 1953 and 1955 was substantially less than with Latin America and the Middle East and Africa. The most significant gains were made by the European Satellites, which more than doubled their trade with South Asia and the Far East between 1953 and 1955. Communist China, which still accounts for almost 80 percent of Sino-Soviet trade with South Asia and the Far East, showed an increase of under 10 percent on the basis of partial data for 1955,

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Table 3

Trade of the Sino-Soviet Bloc with the Free World, by Area a/  
1948 and 1953-55

| Sino-Soviet Bloc<br>Imports and Exports | 1948                        |                       | 1953                        |                       | 1954                        |                       | 1955 <u>b/</u>              |                       |
|---|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
|   | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) |
| Total all areas                         | <u>3,977</u>                | 132                   | <u>3,009</u>                | 100                   | <u>3,598</u>                | 120                   | <u>4,465</u>                | 148                   |
| Imports                                 | 1,968                       | 142                   | 1,389                       | 100                   | 1,764                       | 127                   | 2,037                       | 147                   |
| Exports                                 | 2,009                       | 124                   | 1,620                       | 100                   | 1,834                       | 113                   | 2,428                       | 150                   |
| US and Canada                           | <u>687</u>                  | 1,272                 | <u>54</u>                   | 100                   | <u>67</u>                   | 124                   | <u>92</u>                   | 170                   |
| Imports                                 | 445                         | 22,250                | 2                           | 100                   | 12                          | 600                   | 19                          | 950                   |
| Exports                                 | 242                         | 465                   | 52                          | 100                   | 55                          | 106                   | 73                          | 140                   |
| Europe                                  | <u>2,285</u>                | 113                   | <u>2,019</u>                | 100                   | <u>2,318</u>                | 115                   | <u>2,825</u>                | 140                   |
| Imports                                 | 1,012                       | 107                   | 946                         | 100                   | 1,128                       | 119                   | 1,300                       | 137                   |
| Exports                                 | 1,273                       | 119                   | 1,073                       | 100                   | 1,190                       | 111                   | 1,525                       | 142                   |
| Middle East and Africa <u>c/</u>        | <u>240</u>                  | 91                    | <u>263</u>                  | 100                   | <u>367</u>                  | 140                   | <u>511</u>                  | 194                   |
| Imports                                 | 104                         | 86                    | 121                         | 100                   | 189                         | 156                   | 255                         | 211                   |
| Exports                                 | 136                         | 96                    | 142                         | 100                   | 178                         | 125                   | 256                         | 180                   |
| South Asia and Far East                 | <u>545</u>                  | 105                   | <u>517</u>                  | 100                   | <u>506</u>                  | 98                    | <u>623</u>                  | 121                   |
| Imports                                 | 250                         | 120                   | 208                         | 100                   | 219                         | 105                   | 234                         | 112                   |
| Exports                                 | 295                         | 95                    | 309                         | 100                   | 287                         | 93                    | 389                         | 126                   |

\* Footnotes for Table 3 follow on p. 30.

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Table 3

Trade of the Sino-Soviet Bloc with the Free World, by Area a/  
 1948 and 1953-55  
 (Continued)

| Sino-Soviet Bloc<br>Imports and Exports | 1948                        |                       | 1953                        |                       | 1954                        |                       | 1955 <u>b/</u>              |                       |
|---|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|
|   | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) | Value<br>(Million<br>US \$) | Index<br>(1953 = 100) |
| Oceania                                 | <u>83</u>                   | 97                    | <u>86</u>                   | 100                   | <u>88</u>                   | 102                   | <u>73</u>                   | 85                    |
| Imports                                 | 59                          | 81                    | 73                          | 100                   | 72                          | 99                    | 57                          | 78                    |
| Exports                                 | 24                          | 185                   | 13                          | 100                   | 16                          | 123                   | 16                          | 123                   |
| Latin America                           | <u>137</u>                  | 199                   | <u>69</u>                   | 100                   | <u>252</u>                  | 365                   | <u>341</u>                  | 494                   |
| Imports                                 | 98                          | 258                   | 38                          | 100                   | 143                         | 376                   | 172                         | 453                   |
| Exports                                 | 39                          | 126                   | 31                          | 100                   | 109                         | 352                   | 169                         | 545                   |

a. All data are based on official statistics released by Free World countries. The above data on Sino-Soviet Bloc import and export data, therefore, were extracted directly from Free World export and import data, respectively. Ordinarily, Free World export data are presented on an f.o.b. basis and imports on a c.i.f. basis. A more detailed area breakdown is given in Appendix A.

b. Data for 1955 have been partly estimated by annual rating information available as of 20 June 1956.

c. Includes Greece and Turkey.

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but the increase is expected to reach about 20 percent as more complete trade data become available for 1955. Whereas the USSR had a sizable percentage increase, it accounts for only a minor amount of trade with the area in absolute terms.

The countries with which the Bloc registered sizable gains in trade are Burma, Indonesia, and Afghanistan. If recent arrangements are fully implemented, exchanges with the Bloc may rise at least to one-third of Burma's total trade. For Ceylon, on the other hand, the Bloc share fell between 1954 and 1955. Although official trade statistics for Afghanistan are not available, it is believed that perhaps half of that country's trade in 1955 was with the Bloc compared with about one-third in earlier years. Currently the Bloc share probably is 60 percent or more.

B. Commodity Composition of Trade.\*

Recent years have witnessed a considerable change in the commodity composition of Bloc trade with the Free World partly as a consequence of shifts in Bloc demand and supply. The most significant development has been the growing relative importance of Bloc food imports and the rising share that manufactures represent of its exports.

These trends in the commodity composition of trade point up the complementary character of trade of the Soviet Bloc with underdeveloped countries -- the latter are suppliers of food and raw materials and markets for capital and consumer goods. For example, the Soviet and Satellite imports of food, beverages, vegetable oils, and raw materials from Indonesia increased fourfold between 1953 and 1955. Soviet and Satellite exports to Indonesia, primarily manufactures and machinery, rose about tenfold during the period. In general, probably 30 percent of the increase in Bloc trade with the Free World between 1953 and 1955 represents the exchange of manufactures for primary goods from underdeveloped areas. Communist China is a partial exception in that its net exports of raw materials to the Free World have increased since 1953. Food imports have declined, whereas exports of manufactures have increased 67 percent, and Communist China's net imports of manufactured goods from the Free World have dropped 31 percent.

\* See Appendix A, Tables 8, 9, 10, and 11, pp. 52, 53, 54, and 55, respectively, below.



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Sino-Soviet Bloc exports of manufactured goods to the Free World increased no less rapidly than imports of foodstuffs. The largest volume gains were registered by the European Satellites. The USSR showed the greatest percentage increase.

Although the Sino-Soviet Bloc is a net exporter of capital goods to the less developed countries, it is still a net importer of such goods from the Free World as a whole. Exports of capital goods to the Free World, however, have been rising rapidly since 1952, and imports have been declining moderately. Table 4\* shows Sino-Soviet Bloc trade with the Free World, by major commodity groups, for 1953-55. In 1954 the European Satellite area became a small net exporter of capital goods to the Free World, but the USSR had net imports of over \$130 million with the Free World.

Motor vehicles, agricultural machinery (including tractors), and office machinery accounted for more than half of the Bloc's exports of capital equipment in 1954, and in each of these categories exports exceeded imports by a considerable margin. This was also the case with metalworking machinery and railroad vehicles. The chief Bloc imports -- ships and boats and electric and power-generating equipment -- accounted for more than half the imports of capital equipment.

No significant shifts are noticeable in Bloc trade with the Free World in industrial raw materials and fuels as a group. The proportion of both imports and exports of this group to total trade has been constant since 1952. There have, however, been shifts among commodities within this trade category.

For the period 1952-54 the Sino-Soviet Bloc was a net importer of many industrial raw materials from the Free World, the major exception being mineral fuels. The import value of some commodities such as rubber and cotton tapered off during the period, whereas the value of others, such as textiles and chemicals, increased.

Sino-Soviet Bloc exports of some industrial raw materials, notably mineral fuels, increased between 1952 and 1954. None of these increases except petroleum, however, changed the net importer position of the Bloc with respect to these materials.

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\* Table 4 follows on p. 33.

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Table 4

Sino-Soviet Bloc Trade with the Free World, by Major Commodity Groups a/  
1953-55

|   | Million US \$   |                 |                |                     |            |                |            |            |                |                 |            |                |
|---|-----------------|-----------------|----------------|---------------------|------------|----------------|------------|------------|----------------|-----------------|------------|----------------|
|   | Total Bloc      |                 |                | European Satellites |            |                | USSR       |            |                | China <u>b/</u> |            |                |
|   | 1953            | 1954            | 1955 <u>c/</u> | 1953                | 1954       | 1955 <u>c/</u> | 1953       | 1954       | 1955 <u>c/</u> | 1953            | 1954       | 1955 <u>c/</u> |
| Bloc imports from the Free World              | <u>1,373</u>    | <u>1,761</u>    | <u>1,782</u>   | <u>688</u>          | <u>895</u> | <u>1,082</u>   | <u>421</u> | <u>573</u> | <u>408</u>     | <u>284</u>      | <u>293</u> | <u>292</u>     |
| Foodstuffs, beverages, tobacco, fats and oils | 221             | 435             | 456            | 113                 | 254        | 320            | 99         | 165        | 102            | 9               | 16         | 34             |
| Crude materials and fuels                     | 423             | 510             | 510            | 211                 | 290        | 342            | 121        | 118        | 88             | 91              | 102        | 80             |
| Manufactured goods <u>d/</u>                  | 708             | 759             | 780            | 326                 | 327        | 392            | 200        | 261        | 214            | 182             | 171        | 174            |
| Miscellaneous                                 | 21              | 57              | 36             | 18                  | 24         | 28             | 1          | 29         | 4              | 2               | 4          | 4              |
| Bloc exports to the Free World                | <u>1,575 e/</u> | <u>1,823 e/</u> | <u>2,106</u>   | <u>774</u>          | <u>948</u> | <u>1,152</u>   | <u>381</u> | <u>505</u> | <u>486</u>     | <u>420</u>      | <u>370</u> | <u>468</u>     |
| Foodstuffs, beverages, tobacco, fats and oils | 593             | 499             | 528            | 209                 | 204        | 230            | 160        | 105        | 90             | 224             | 190        | 208            |
| Crude materials and fuels                     | 584             | 708             | 810            | 279                 | 325        | 376            | 160        | 270        | 260            | 145             | 113        | 174            |
| Manufactured goods <u>d/</u>                  | 370             | 527             | 746            | 262                 | 370        | 534            | 59         | 106        | 130            | 49              | 51         | 82             |
| Miscellaneous                                 | 28              | 89              | 22             | 24                  | 49         | 12             | 2          | 24         | 6              | 2               | 16         | 4              |

a. Based on data from Free World trading partners. All commodity totals do not equal trade totals shown in Appendix A, because of incomplete coverage in the present table; that is, some of the Bloc's Free World trading partners do not report trade data broken down by commodity class.

b. Includes some double counting because exports of Chinese Communist products to Hong Kong which are reexported from Hong Kong to other Free World countries are counted as imports from China by Hong Kong and also by the country of ultimate destination.

c. Annual rate based on data of January-June 1955.

d. Includes chemicals.

e. Exports of Outer Mongolia are included in Bloc totals but not in area data.

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V. Indications of Future Developments.

The growth of East-West economic relations from 1953 to date represents the pursuit by the Sino-Soviet Bloc of both economic and political gains. In the case of any one country to which the Bloc offensive has been directed, both political and economic advantage to the Bloc member concerned may result. Thus it is frequently difficult to isolate or identify Bloc purposes. In Soviet foreign policy the economic and the political factors are merged. Nonetheless, in an analysis of the future prospects of East-West economic relations, it is useful to distinguish these two elements.

A. Economic Objectives in Sino-Soviet Bloc External Policy.

The probable economic position of the Bloc in the next few years suggests a moderate and continuing increase in East-West trade. This conclusion is based on indications of Communist thinking in relation to trade policy, on Bloc economic plans for the future, and on present and prospective Bloc economic conditions. There is no evidence of any change in the basic philosophy and objectives -- economic growth, political and military strength -- which have led to an autarkic policy in the past. But there is reason to believe that these objectives will be pursued by trade policies which are becoming somewhat modified through time as a result of changing conditions.

Economic self-sufficiency has been regarded less as an end in itself than as a policy appropriate, within limits, to the achievement of military security and hence to industrial development free from dependence on the outside for essential sources of supply. By now the Bloc has achieved significant military strength relative to the West; it is likely that in the estimation of Bloc planners the probability of war has decreased with the development of nuclear weapons. Industrial growth has been achieved on a scale and in a manner which should give assurance to Soviet leaders of its continuance without substantial danger of interruptions either from economic fluctuations in, or from such trade restrictions as are now imposed by the Free World. Furthermore, the death of Stalin appears to have reduced the emotional elements of fear and rigidity which have influenced Soviet policy in the past.

Thus, whereas Soviet planners evidently regarded narrow autarky as a policy appropriate to a period of economic construction and a position of weakness, they apparently believe that

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increased trade and specialization are appropriate to their present stage of development. It is true that numerous statements of this kind have been made in the past by Soviet leaders, though their significance should not be exaggerated. For example, propaganda statements favoring East-West trade were initiated in 1951, long before general expansion of trade by the Bloc. In the present period, trade expansion genuinely based on economic incentives can be anticipated; it is not likely, however, to be carried to a point where the USSR would be avoidably dependent on the Free World for any significant number of critical products or for large fractions of its consumption of medium-priority goods.

Current planning in the USSR and Eastern Europe suggests a cautious but not necessarily negative approach to East-West trade. (Details of trade plans are not made public.) The economic plans for 1956-60, now published in the USSR and in most Satellite countries, project ambitious increases in agricultural output and in the production of fertilizer and agricultural machinery. The USSR has already extended cultivation of virgin lands on a large scale. Whereas these plans are unquestionably overoptimistic, increased attention to agriculture should bring some improvement in output. Thus the Bloc is undoubtedly still determined to limit its dependence on Free World supplies.

Another aspect of the plans for 1956-60 places a new accent on intra-Bloc trade. A new emphasis on specialized output among Bloc countries has been frequently asserted in Bloc statements regarding the current Five Year Plans. More rational international allocation of Bloc resources implies an increase in exchange among Bloc countries. The increase in specialized output in Bloc countries, however, could lead to the growth of production for export not only to other Bloc countries but also to the Free World.

In addition, there is evidence that comparative costs in the Bloc have shifted as a result of industrial expansion, so that manufactured goods are becoming relatively cheaper and agricultural and raw material products more costly to produce. This process should continue as industry becomes more efficient, whereas extractive activities in most cases can be expanded only at increasing real cost. Growing awareness of this shift may lead to a continued expansion of Soviet and East European trade with the less developed areas with indeterminate effects on the over-all level of trade. It does not necessarily imply that underdeveloped trading partners in the Free World will be favored over Communist China.

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Thus far the Bloc regimes are planning to supply the needs created by continuing industrialization primarily from internal Bloc production. Plans designed to increase raw materials supply may ultimately prove inadequate, and the advantages of trade with the Free World may become increasingly attractive to Bloc planners. Furthermore, the growth of industry at currently projected rates, which are nearly as rapid as those of 1948-53, will almost certainly create additional demands for many extractive raw materials faster than domestic output can supply them economically. There is, then, more likelihood that East-West trade will increase rather than decline substantially below its present level, which is low relative to total Bloc output.

It is probable that the forces creating an economic incentive to trade will operate more strongly in the European Satellites than in the USSR. Their extractive resources are far more limited, and they have now become significantly dependent on Soviet supplies of minerals, fibers, grains, and other basic commodities. With a similar type of industrial growth in both areas, the Satellite demand for Soviet natural resources could become increasingly burdensome; the USSR may therefore be less and less inclined to supply growing needs of the Satellites. Indeed, the Satellites may be of more economic value to the USSR if strengthened by East-West trade. Given these conditions, the necessity for self-sufficiency in the Satellite area on the periphery of the Bloc may appear to be of less strategic importance than autarky within the USSR in the minds of Soviet planners. Hence the rate of growth of the East-West trade of the Satellites probably will be higher and certainly steadier than that of the USSR, which may be subject to more abrupt fluctuations based either on shifts in planning or on external political considerations.

B. Effect of Sino-Soviet Bloc External Political Objectives on Economic Policy.

It is apparent that future trends in the geographical distribution of trade with the Free World cannot be predicted from Sino-Soviet Bloc economic motives alone. The initial large-scale purchases by the USSR and by the European Satellites in 1953-54 can be largely explained by commercial considerations. Since then, however, the Bloc trade offensive has been directed toward countries which offer not only food and raw materials as exports but also the potentiality of sympathetic political support.

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The selection of Yugoslavia, Egypt, India, and Afghanistan as principal recipients of Bloc credits was determined in large measure by political and strategic considerations. Although it is true that these countries can supply raw materials useful to the Bloc, they are not in every case outstanding producers of such goods. An exception is Egypt. The desire to obtain Egyptian cotton, a perennial Bloc import since the war, does not indicate, however, the Soviet offer of aid in the construction of the Aswan Dam. Similarly, the large credits extended at low interest rates to Yugoslavia and Afghanistan could be viewed as a cost necessary to the opening of new markets but could also be viewed as the cost of advancing political strategy.

The prospect is that East-West trade will expand and will be increasingly directed toward underdeveloped Free World countries but that the speed with which these shifts occur may be strongly influenced by political considerations.\* If, for example, the campaign to increase Bloc influence in particular Free World areas should produce adverse results from the Bloc point of view, it is unlikely that Soviet planners would wish to expand their credit program merely to provide a market for capital goods.

C. Potential for Trade and Aid.

At the present time the Sino-Soviet Bloc has considerable potential for increased trade and aid. It has an estimated aggregate gross national product (GNP) of about \$250 billion. The GNP of the USSR comprises almost 60 percent of the total.

The economies of the Bloc will grow substantially over the next few years. For the period 1955-60, aggregate Bloc GNP is expected to increase by about 35 percent. In the USSR alone, GNP will increase about 40 percent. Thus, if Bloc trade with the Free World were only to maintain its 1955 ratio to Bloc output, a substantial trade increase would occur. In fact, however, the recent Bloc economic offensive presages a higher rate of increase for such trade.

There is no economic or physical reason why total East-West trade could not at least double over the next few years. It has been estimated that the Bloc could provide exports to the Free World of over \$4 billion

\* For discussion of the political vulnerability of Free World countries to Bloc approaches, see NIE 100-3-56, Sino-Soviet Policy and Its Probable Effects in Underdeveloped Areas, 24 April 1956, SECRET.

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annually by 1960 exclusive of armaments. A growing export potential exists in the basic types of machine tools, industrial products, and industrial installations as well as in light machinery and motor transport equipment. The potential export surplus of military hardware probably is in excess of potential export demand. With respect to technical services, the USSR, East Germany, and Czechoslovakia all possess a high-quality pool of technical and scientific manpower that could be drawn upon to serve export markets. Should the USSR desire, it can export a considerable quantity of gold, thereby allowing a higher level of imports than need be balanced by commodity exports.

Imports by the Sino-Soviet Bloc from the Free World are small relative to the Bloc's total production and, with some important exceptions, generally constitute marginal volumes of supplies of most industries. The economies of the Bloc are, however, capable of absorbing additional quantities of machinery, industrial raw materials, and food products. The Bloc could readily double its present level of imports with increasing emphasis on raw materials and food.

Of the three major areas within the Sino-Soviet Bloc, the European Satellites face the most pressing agricultural problem. In the recent past, these countries as a group were net importers of food from the USSR, but over the long run this source is problematical. Over the next few years the Satellites will continue to require large imports of grains and other foodstuffs from the non-Communist world if living standards are to be maintained. Similar considerations apply with respect to such items as mineral products and rubber. The USSR also will require increasing imports of industrial raw materials.

In general, the import capacity of the Bloc is limited primarily by the Bloc's ability and willingness to export to the Free World and by the degree to which Communist policymakers hold non-Bloc trade to be advantageous. Through its state trading organizations and centralized decision making, the Bloc can readily meet or better the terms of sale of Western sellers and/or manipulate trade relations for economic warfare purposes. Where the Bloc sees advantage in providing liberal credits, it is well within its economic capabilities to expand the current program.

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Present credit offers of about \$1 billion amount to about 1 percent of annual industrial production in the Bloc. If all of these offers materialize into actual credits which are fully utilized, construction of most of the projects undertaken will be spread over approximately a 5-year period.

It is true that the resources exported to underdeveloped countries will be unavailable for domestic investment. The construction in India of a 1-million-metric-ton steel mill means that the USSR must forego the use of material and manpower resources during the construction period. The export of other plants, such as electric power stations, cement plants, sugar factories, and other facilities makes them unavailable for use within the Sino-Soviet Bloc. But these exports represent only a relatively small fraction of what the Bloc produces annually. The magnitude of the program indicates that the impact on the Bloc will be relatively light. Moreover, just as domestic investments begin to yield a return after the construction period is completed, capital facilities installed abroad yield returns in the form of commodities received in payment for interest on loans.

Judging from the announced rates of interest, however, Bloc loans are likely to earn a smaller rate of return than would domestic investments of similar value. However, in acquiring raw materials through the export of machinery and other capital goods, the over-all productivity of Bloc resources probably will be augmented. The Bloc will be deriving the advantages of international specialization and exchange. Long- and medium-term credits can be expanded considerably, and trade with underdeveloped countries can be enlarged considerably to the economic advantage of the Bloc.

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VI. Economic Factors Affecting Vulnerability to Sino-Soviet Bloc Trade and Credit Offers.

The economic problems of underdeveloped countries tend to make these countries receptive to Sino-Soviet Bloc offers of closer economic relations. This is not to say, however, that economic considerations will in all cases be paramount in determining a country's response to Bloc blandishments or that the acceptance of such offers necessarily means that the Bloc will be able to exert pressures successfully on the country to obtain political concessions. Vulnerability in the latter sense depends on a complex of political, strategic, geographic, cultural, and other factors beyond the scope of this report.

In general, a basic motivation in the policy of the underdeveloped countries is the desire to accelerate economic growth and industrialization and to escape mass poverty. The domestic production of these countries is overwhelmingly agricultural and extractive. Manufacturing is largely limited to light consumer goods for the home market, although there are exceptions. Implicit in such an industrial structure is the fact that industrial producer goods and, to a large extent, managerial and technical knowledge must be imported if they are to be available. There are three ways in which these imports can be obtained: in exchange for exports, by foreign aid in the form of official loans or grants, and by private foreign investment. The last of these is both limited in magnitude and clearly not welcome in many of the underdeveloped nations. Foreign aid, when not encumbered by what are believed to be onerous political considerations, is welcomed. Usually the fundamental wherewithal for purchasing development goods and services is export sales, and it is here that the appeal of the Bloc is strongest.

Until the last few years the underdeveloped countries enjoyed a seller's market for their exports, which, given the nature of their domestic economies, usually consist of a fairly limited list of primary commodities. There was, in general, no pressure to seek new customers or to grant price concessions. At present, however, a number of prices are under pressure, and exporters' stocks have grown burdensome. In many cases, adjustment to lower export price levels is made difficult by internal inflation and political conditions.

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To many underdeveloped countries, Bloc trade in the form of bulk purchases seems to provide a way out of this impasse. The new market opportunity is seen as a stabilizing force with respect to the terms of trade and the volume and value of primary product exports. In commodities such as cotton and rice the Bloc is ordering quantities which -- though negligible in the large economic base of the Bloc -- represent a substantial portion of the export sales of particular countries and hence a significant contribution to their national income.

The receptivity of the underdeveloped countries is further increased by the character of the goods and services offered in exchange for their primary commodities and, in some cases, by apparent price premiums. The Bloc offers capital goods and technicians; where the national aspiration is toward military strength, it offers arms, as in the case of Egypt. The inducement to trade is further increased by the credit offers on favorable terms.

Moreover, even where the attraction of Bloc offers is small -- as in most Latin American and some of the countries closely tied to the West in military alliances -- Bloc offers are at least appealing as a tactical device for improving bargaining power with the West on economic matters. The increase in US economic aid for Egypt and Afghanistan following their recent transactions with the Bloc appears to others to indicate that the benefits of Western aid and trade need not be lost, and may indeed be stimulated, by acceptance of Bloc offers.

The Bloc has already made significant progress in expanding its economic relations with a number of countries, most notably Burma, India, Egypt, Turkey, and Afghanistan. The reasons for this success have varied from country to country. For instance, Burma was receptive to Bloc offers because of its difficulties in disposing of its large rice surplus; India was able to obtain certain capital equipment from the Bloc on more attractive terms than were available elsewhere; Egypt could not obtain the arms that it wanted from Western sources on terms that it would accept. Even countries aligned with the West are likely to increase their trade with the Bloc. Turkey and Iran have already done so because of internal economic difficulties, and Pakistan, Cambodia, Greece, and numerous Latin American countries probably will investigate the possibilities for increased trade with the Bloc.

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